Economic Recovery Tools to Leverage Federal Capital

A Snapshot of Effective State Policies to Leverage Private Capital in an Economic Recovery

Following Hurricanes Katrina and Rita and economic recessions, Louisiana, along with other Gulf Coast states, enacted and utilized effective state policies that built upon federal programs designed to spur economic recovery and revitalization.

Many state policies attracted private capital to Louisiana by leveraging federal dollars available through federal programs. As Louisiana faces an economic downturn associated with COVID-19 and other economic factors, Louisiana can again use a familiar approach and utilize programs that were proven successes following Hurricane Katrina and leverage new federal programs.

Any policies considered by Louisiana should incorporate best practices and guiding principles that result in successful programs while driving value innovation:

1) Utilize incentives that will result in a delayed impact to state budgets, while investments and economic activity occur now;
2) Transparency through reporting to the State;
3) Accountability through effective incentive processes;
4) Investment of all capital within state boundaries while still attracting outside investment or new dollars to the State;
5) Measure outcomes prior to renewal of program; and
6) Empower relevant agencies to preside over program.

With these best practices and principles in mind, the State can consider and enact policies proven to effectively leverage federal capital through the use of the private sector to restart the State's economy following the COVID-19 crisis.

This summary describes policies with proven results, designed to provide a myriad of solutions to spur economic recovery, while still embracing the power of innovation and partnership.

Proposal	Section of Law	Stakeholders	Impact	Potential Legislative Instruments	Fiscal Impact

LA Historic Tax Credit Extension and Improvements	La. R.S. 47:6019	Developers, LA Taxpayers, Main Street Communities, Hospitality Industry, Small Businesses, Affordable Housing, Investors	Every dollar in historic tax credits generates $8.76 in economic activity, according to a study performed by Place Economics.	Special Session Call; Stand-alone House or Senate bill	TBD
LA New Markets Tax Credit Renewal and Extension	La. R.S. 47:6016 or 47:6016.1	Hospitality Industry, Operating Companies, Manufacturers, Small Businesses, Developers, Affordable Housing, Investors, Banks, Corporate Income Taxpayers, Insurance Premium Taxpayers	Every $1 in tax credits issued, generated just over $2 in tax revenue back to the state, the bulk of the revenue from sales and personal income taxes. Study performed by Dr. Alfie Meek.	Special Session Call; Stand-alone House or Senate bill	TBD
LA Small Business Development Fund – Creation of New Program	TBD – La. R.S. 47:6041, et al	Small Businesses, Operating Companies, Manufacturers, Agribusinesses, Investors, Insurance Premium Taxpayers		Special Session Call; Stand-alone House or Senate bill	TBD
Pharmaceutical Production and Manufacturing Incentive	Utilize Research and Development Tax Credit – La. R.S. 47:6015	Manufacturing facilities, Pharmaceutical Industry, Pharmacies, Pharmaceutical compounding facilities, Pharmaceutical Schools, Biomedical and Medical Research Centers,		Special Session Call; Stand-alone House or Senate bill	TBD

		Chemical Engineers, Trade Schools			
LA Rehab Tax Credit	La. R.S. 47:6041, et al	Transportation Centers; Main Street Communities; Tourism Industry		Special Session Call; House or Senate bill	TBD
LA Health and Safety Tax Credit	TBD – La. R.S. 47:6041, et al	Private businesses and facilities throughout Louisiana; Tourism industry; Manufacturing industry; Small Businesses; Restaurant industry; Hospitality industry; Any industry that needs to retrofit its operations and facilities to meet the health and safety needs of Louisiana residents and out-of-state tourists		Special Session Call; Stand-alone House or Senate bill	TBD

I. <u>Historic Tax Credit – Hospitality & Tourism Sectors, Small Businesses & Main Street Communities throughout Louisiana</u>

➢ **How can the Louisiana Historic Tax Credit serve as an economic recovery tool?**

The HTC has breathed new life into vacant, blighted or under-utilized properties throughout more than half of our parishes in Louisiana - schools, warehouses, factories, commercial buildings and more. The HTC has revitalized main street communities that have few, if any, economic development tools to bring life and stability to neighborhoods and downtown businesses. Utilizing the private sector through the HTC to rehabilitate our state's infrastructure provides a catalytic effect and a positive return on investment to the state. Every dollar in historic tax credits generates $8.76 in economic activity, according to a study performed by Place Economics.

It generally costs 40% more to rehabilitate and restore an old, historic structure than to build new construction. Providing an incentive – and perhaps, an increased incentive - for the private sector to invest in our state's existing infrastructure will ensure lasting impact for our Main Street communities. Following Hurricanes Katrina and Rita, the federal HTC was increased to serve as an additional economic development incentive to encourage investment in historic structures – it worked. With the unprecedented impact of COVID-19 on the real estate market and hospitality sector, the Louisiana HTC can be tweaked slightly and utilized as an effective and proven economic recovery tool.

➢ **What changes to the LA Historic Tax Credit are needed to spur economic recovery?**

<u>Extend the LA HTC from 2021 to 2028:</u> Extend the LA HTC beyond 2021 to provide stability and certainty for current and future projects to rely upon the financing tool. A project takes approximately two years from start to finish – from financing to open for business; thus, potential projects need certainty *now* that the LA HTC can be utilized immediately as an incentive to assist with the increased costs of rehabilitating an historic structure.

<u>Boost Economic Activity by Temporarily Increasing the HTC Percentage</u>: Similar to the response after Hurricanes Katrina and Rita, which leveraged significant federal capital to Louisiana's development projects and hospitality sector, the LA HTC can be increased temporarily as an immediate incentive for economic recovery.

- Increase the LA HTC from 20% to 25% for all costs and expenses incurred on or after January 1, 2020, for historic structures located in an opportunity zone or a parish with a population of less than 200,000.
- Increase the LA HTC to 30% for all costs and expenses incurred on or after January 1, 2020, for historic structures that incur expenses of less than $2.5 million (small projects); historic structures that receive an allocation of federal low-income housing tax credits utilized to rehabilitate the structure; or historic structures that receive an allocation of federal new markets tax credits utilized to rehabilitate the structure

<u>Allow credits to be used for previous tax years</u>: As Congress has done with certain tax provisions (net operating losses in the CARES Act) and proposed for the federal HTC, allow the LA HTC to be applied to the two previous tax years to promote liquidity and capital flow by investors into current and future projects.

II. <u>New Markets Tax Credit – Hospitality & Tourism Sectors, Small Businesses, Operating Companies</u>

➢ **How can a state New Markets Tax Credit Program serve as an economic recovery tool?**

Prior to the economic downturn associated with COVID-19, developers and investors overlooked low-income communities as investment opportunities due to a perceived lack of reasonable return and higher risks associated with investments in distressed areas. Low-income communities have significant untapped real estate assets and will continue to need additional support following the economic downturn for equity and access to all populations throughout Louisiana. Further, manufacturers and operating companies are in dire need of capital to maintain employees, train workforces, and retrofit operations in response to the current and future lifestyle needs following COVID-19.

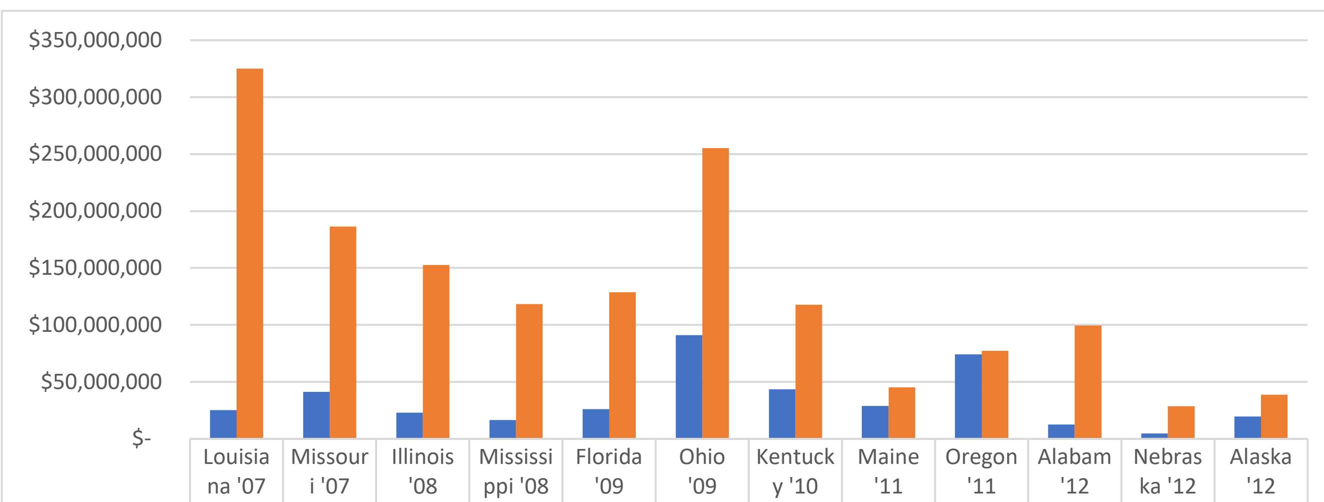
The Federal New Markets Tax Credit Program has existed at the federal level for decades and some states enacted complementary state NMTC programs following the Great Recession. The NMTC is a time-tested and successful program that can quickly utilize the private sector to invest in our state's operating companies, small businesses and real estate needs to restore the economy, specifically in low-income communities. The Federal NMTC Program has resulted in $42 billion in direct federal investments, leveraging nearly $80 billion in total private capital investment and the creation of more than 1 million jobs nationwide. Every $1 of federal NMTC credits results in $8 of private investment and $2.20 in federal tax revenue.

Though expired, Louisiana enacted a state NMTC program that leveraged significant federal NMTC capital to our state before, during and after Hurricane Katrina. Specifically, the Go Zone Act enacted by Congress following Hurricanes Katrina and Rita provided for a special NMTC allocation to be used in Louisiana and the other states impacted by Hurricane Katrina. This special allocation, along with the Louisiana state NMTC Program, leveraged federal dollars to rebuild, sustain and grow Louisiana businesses. In fact, Louisiana continues to rank in the top 10 states for federal NMTC investments in Louisiana and dollars spent on Louisiana projects. Finally, a study of the Louisiana NMTC Program revealed that every $1 in tax credits issued, generated just over $2 in tax revenue back to the state, the bulk of the revenue from sales and personal income taxes.

- **Renewal is necessary for the Louisiana New Markets Tax Credit Program to spur economic recovery.**

The Louisiana New Markets Tax Credit, La. R.S. 47: 6016, *et al* still exists in the Louisiana Revised Statutes and can be utilized to enact another round of allocation at the size and amount desired by the Louisiana Legislature. In Summer 2020, the CDFI will announce the awards of allocation for the 2019 Federal New Markets Tax Credit in the amount of $3.5 billion (39% of which represents the tax credit). Congress is currently considering proposals to increase that allocation to $5 billion if additional COVID-19 legislation is enacted prior to the Summer 2020 awards. An additional allocation of at least $5 billion will be awarded next year.

In order to attract that federal capital to Louisiana, Louisiana should consider renewing the Louisiana New Markets Tax Credit in a manner that allows for hospitality investments in low-income communities, along with traditional NMTC investments in operating companies, manufacturing facilities, rural healthcare facilities, etc. in low-income and severely distressed communities. A sampling of state NMTC programs enacted after the Great Recession demonstrated that a complementary state program drives federal NMTC capital to states with programs:



	Louisiana '07	Missouri '07	Illinois '08	Mississippi '08	Florida '09	Ohio '09	Kentucky '10	Maine '11	Oregon '11	Alabam '12	Nebraska '12	Alaska '12
Pre NMTC	$25,28	$41,22	$22,89	$16,64	$26,11	$91,06	$43,51	$28,91	$74,33	$12,66	$4,693	$19,76
Post NMTC	$325,0	$186,4	$152,5	$118,3	$128,6	$255,3	$117,7	$45,22	$77,40	$99,41	$28,67	$38,73

Based on U.S. Treasury data through 2011 (www.cdfifund.gov). Utah, Nevada and Arkansas not included.

There are over 30 Louisiana companies and firms that participate in the federal NMTC Program – whether as investors, attorneys, developers, tax credit providers, CPAs – who could utilize their expertise in attracting private capital to our state's hospitality sector, operating companies, community centers, all of which shall be located in low-income census tracts. The NMTC Program is fundamentally designed to provide equity and access to communities that are often overlooked by investors.

III. Small Business Investment Fund – Small Businesses & Manufacturing throughout Louisiana

The U.S. economy is under extreme stress that surpasses the Great Recession. While federal relief measures may address the immediate survival of small businesses during the COVID-19 pandemic, full recovery of even our strongest small businesses will be sideswiped by this black swan event. Demand shortfall coupled with supply chain interruptions and credit limits will put many small businesses and their employees in a state of financial ruin in 2020. Entrepreneurs and our state's small businesses don't have years, or even months, to figure out a financing solution. The private sector can be a critical partner to facilitate the rapid deployment of capital to small businesses by leveraging existing, proven federal programs and capital.

During the Great Recession, tax credit programs that facilitated the flow of capital to small businesses located in underserved areas helped minimize the closing of our nation's backbone. From 2007-2012, 24 states passed programs to drive private capital where it was needed most—growing small businesses and creating jobs. Utilizing a state model that leverages federal capital raised and invested through the SBA Small Business Investment Company and USDA Rural Business Investment Company programs, the private sector can raise and invest capital in Louisiana small businesses in 1-2 years – allowing our state's economic engine of small businesses to survive and eventually grow.

- **Attracting private capital to Louisiana small businesses through the use of a Small Business Development Fund.**

Utilizing a successful model enacted in Ohio, Georgia, Utah, Connecticut and other states, Louisiana can tap into an existing network of federally licensed SBICs and RBICs, who are certified with the singular mission of growing our nation's small businesses. In one proposed model, SBICs and RBICs would be authorized to raise private capital from insurance companies who pay Louisiana insurance premium taxes and combine that capital with traditional investment capital to create large pools of capital to be invested in Louisiana small businesses within 1-2 years. The insurance companies receive a tax credit for their investment *but only in years 3-6 after the capital is invested in small businesses*. The SBICs and RBICs are required to keep their capital invested in Louisiana small businesses for at least 6 years, providing access to long-term, patient and affordable capital.

A second model would utilize federal stimulus dollars appropriated to states and local governments for SBICs and RBICs to match with private capital and invest *quickly* in small businesses located throughout Louisiana. To ensure access and equity for all Louisiana small businesses, the second model could require a percentage of investments in small businesses located in low-income communities. Regardless of the model, the private sector through SBICs and RBICs would raise private capital to match the state's contribution whether through federal stimulus dollars or tax credits.

A recent report by Main Street America revealed that nearly 31% of small businesses in Louisiana that responded to a survey are at risk of closing permanently over the next two months as a result of the effects of closures during the COVID-19 pandemic.[1] Nearly 60% of small businesses that responded to

[1] https://www.wafb.com/2020/04/17/new-report-shows-la-small-businesses-danger-closing-due-covid-effects/

the survey could close over the next five months. Louisiana will need to enact smart policies like the Small Business Development Fund proposal that leverage federal capital for small business survival.

IV. **Building a Pharmaceutical Manufacturing Industry in Louisiana**

As Louisiana considers its future post-COVID-19, diversity in industry sectors is a common theme. With the double blow of the decline in the oil and gas market and the COVID-19 impact, Louisiana will suffer disproportionately to those states that do not primarily depend on the oil and gas industry for revenues. Louisiana is poised to grow sophisticated industries over the next ten years – pharmaceutical manufacturing and composting. With world-renowned facilities like the Pennington Biomedical Institute in Baton Rouge and pharmacy schools in Monroe and New Orleans, Louisiana should serve as a leader in recruiting the pharmaceutical manufacturing and production industry back from China to the United States. La. R.S. 47:6015 provides for the Louisiana Research and Development Tax Credit, which could be utilized and amended to provide an additional incentive to recruit pharmaceutical manufacturing and production activities in Louisiana.

V. **Louisiana Health & Safety Tax Credit to Provide a Healthy & Safe Experience for Louisiana Residents and Tourists**

Many leaders within our Louisiana communities are discerning ways to ensure Louisiana residents and tourists that Louisiana is SAFE AND OPEN FOR BUSINESS. How can our businesses, airports, hotels, convention centers, restaurants, manufacturing facilities and all businesses retrofit their facilities to provide for a healthy and safe experience and environment? Our businesses will need to rehabilitate their facilities to provide for no-touch doors, toilets, sinks, paying stations, etc. Louisiana has a stake and role in encouraging its businesses to undertake these necessary expenses in order to provide a healthy and safe environment for all.

- **Utilize a health and safety tax credit to encourage COVID-related rehabilitation**

Similar to the process utilized under the historic tax credit program, a tax credit for a percentage of expenses associated with rehabilitating a business for COVID retrofitting would encourage Louisiana businesses to undertake the necessary expenses and time to provide safe and healthy experiences. For example, a manufacturing facility may utilize the health and safety tax credit to finance the construction of changing and retrofitting all doors, toilets, sinks, processing equipment and workspaces, workrooms, etc. so that its employees can work while touching as few communal surfaces as possible. The facility would submit to LED the anticipated costs of retrofitting for health and safety and LED would certify 25% of the costs as health and safety tax credits. Those tax credits would need to be approved after the construction is completed in order for the taxpayer to utilize the credits. A transferable tax credit – like the historic tax credit – would be most valuable so that the manufacturing facility could monetize the credits prior to construction to help with the upfront cost of construction.

To ensure fiscal responsibility, the health and safety tax credit could include aggregate caps, per project caps, taxpayer caps or other accountability and transparency provisions. However, the policy of encouraging Louisiana businesses to provide a healthy and safe experience to Louisiana residents and tourists would prevail and the State would invest in that policy through the use of a tax incentive.

VI. **Support the Revitalizing Economies, Housing, and Businesses (REHAB) Act**

HR 6175 by Representative Earl Blumenauer (D-OR-3) and cosponsored by Reps. Kelly (R-PA-16), LaHood (R-IL-18) and Kildee (D-MI-5), seeks to enact the “Revitalizing Economies, Housing, And Businesses Act of 2020” or also known as the “REHAB Act of 2020”. Congress is currently considering HR 6175 as a component of the next phase of COVID-19-related legislation, as the REHAB Act encourages greater private capital investment in public infrastructure, affordable housing and economic development – a timely goal and mission of driving the investment market toward walkable, affordable neighborhoods.

The REHAB Act utilizes a 15% baseline credit for rehabilitation of non-historic buildings 50+ years old and within ½-mile of existing or planned public transportation facilities. Eligible projects include residential rental property, building expansion and rehabilitation and new construction on adjacent lots on the same block. Bonus incentives are available for expenditures related to public infrastructure and attainable housing projects (units that are rent-restricted and occupied by individuals whose average income does not exceed area gross median income).

In the event that Congress enacts this new, revolutionary tool, Louisiana should consider a complementary, state incentive that attracts the available, federal capital to Louisiana and improves our infrastructure and walkable communities at a higher rate than states that do not consider a complementary state incentive. Eligible areas for use of the REHAB Act include Amtrak Stations in Hammond, Lafayette, Slidell, Lake Charles, New Iberia and Shriever and Bus Stations in Shreveport, Alexandria, Baton Rouge, Lafayette, Lake Charles, Monroe and New Orleans. A state REHAB incentive would accelerate development surrounding a light-rail from Baton Rouge to New Orleans and from New Orleans to Mobile – far beyond the pace of development that would occur in neighboring states like Mississippi and Alabama.

Since 1999, Stonehenge Capital Company, LLC has operated at the nexus of finance and community development, providing transformational capital in underserved markets that has grown our nation's small businesses, created jobs for hard-working families and revitalized urban and rural communities. Stonehenge Capital is not a typical finance firm – it is a thought leader in investment capital, producing strong returns for investors and impactful social returns for communities. Stonehenge Capital fosters collaboration across a team of seasoned and talented professionals in Baton Rouge, Columbus, New York, Dallas and other locations, who leverage two decades of expertise and relationships to provide innovative financing solutions where they are most needed on a national scale.

Mackenzie Ledet, Director of Government Relations for Stonehenge Capital, is involved in the firm's economic development initiatives where she primarily manages the firm's relationships at the local, state and national levels to support and promote state and federal capital access programs. Ledet serves as a leader of the Louisiana Historic Tax Credit Coalition, a coalition of stakeholders in urban and rural communities throughout Louisiana who advocate to maintain and protect the LA Historic Tax Credit. Ledet also serves on the advocacy committee of the Federal Historic Tax Credit Coalition, serving to protect and advocate on behalf of the proven Federal Historic Tax Credit; and the Partnership for Job Creation, a coalition that advocates on behalf of the impactful and proven Federal New Markets Tax Credit. With respect to small businesses, Ledet serves on the Board of the State Agriculture and Rural Leaders organization, which is dedicated to promoting and fostering cooperation, leadership and educational opportunities among and for state and provincial legislators that are passionate about agriculture and rural communities.

Ledet is passionate about private sector solutions to enable local, state and federal governments to innovate, grow and prosper, particularly in low-income communities or areas historically underrepresented in the private market. Prior to joining Stonehenge, Ledet was an attorney, litigator and registered lobbyist with the Baton Rouge firm of Baker, Donelson, Bearman, Caldwell & Berkowitz. Her legal practice focused on a wide variety of corporate matters, including commercial litigation, healthcare litigation and regulatory matters. She also served on the staff of former Congressman Charles Boustany (R-LA) in Washington, D.C. and worked in the Louisiana State Senate under the late Senate President John Joseph Hainkel, Jr. and late Senate President Donald 'Doc' Hines.